



# Aid Matters

## Merit Aid is the Wrong Tool to Attract the Best and the Brightest

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**R**egional prosperity requires a well-educated workforce. Developing a workforce that is educated and skilled—which in today's economy means one with some form of postsecondary education—requires focused efforts to ensure that all students who can benefit from a college education have the opportunity to pursue one. This means that public resources have to be expended on increasing college access for those students who are on the margins of postsecondary attendance and who historically have not participated in college at the same rates as more advantaged groups. Yet at least one recent policy trend runs counter to this goal.

Merit-based financial aid has been a growth industry in the United States over the past decade. Much media attention has focused on the use of merit aid by colleges and universities to try to attract academically talented students, the type of students who will help an institution move up in the college rankings guides produced by publications such as *U.S. News & World Report* and *Barron's*.

What has received less attention has been the increase in merit aid provided directly from state funds. In 1992, less than 10 percent of all state grant dollars awarded to undergraduates was provided without consideration of financial need; by the 2001-2002 academic year, this proportion reached 25 percent. Spurred by the creation of the Georgia HOPE Scholarship program in 1993, a dozen states have created broad-based merit aid programs that now award

over \$1.2 billion to undergraduate students.

A recent report I co-edited for the Civil Rights Project at Harvard University analyzed the impact on college access of four of the nation's leading merit aid programs, including three of the four largest programs. Unlike need-based aid, which has a long history of being used to promote access to college for lower-income students—the students who most need the financial assistance in order to be able to enroll in college—the state merit aid programs target their awards to a different population of students. Indeed, merit aid benefits predominantly students from the groups who historically have had the highest college-going rates in the country, including white and upper-income students.

The findings in the Civil Rights Project report are consistent regarding the impact of these programs in Florida, Georgia, Michigan and New Mexico:

- Georgia's HOPE program, which is funded by the state's lottery, is the nation's oldest and largest broad-based merit scholarship program, awarding \$300 million in the form of full-tuition grants during the 2000-2001 academic year. Researchers Christopher Cornwell and David Mustard of the University of Georgia concluded that only 10 percent of the state's expenditures on the HOPE program resulted in increased college access in the state; the remaining 90 percent of the funds subsidized existing college-going behavior of students who likely did not need the assistance to be able to afford college.
- New Mexico's Lottery Success Scholarship program is similar to Georgia's in that it is funded by the state's lottery and provides full tuition grants

to students in public institutions. Melissa Binder, Philip T. Ganderton and Kristin Hutchens of the University of New Mexico found that approximately 80 percent of the recipients of these scholarships were from families earning more than \$40,000 per year, well above the state's median income of approximately \$32,000.

- In both Michigan and Florida, the rate at which scholarships were awarded differed greatly among students from different racial and ethnic groups, and among students from communities of different income levels. For example, while about one-third of white students in both states received scholarships, less than 10 percent of African-American students did. In both states, students in the 20 percent of schools in the wealthiest communities (as measured by the proportion of students on free- or reduced-price lunch in high school) received scholarships at rates more than twice that of students in the poorest communities.

### **Merit aid programs do not increase college access for students who would otherwise be unlikely to attend college.**

The research reveals that these programs were likely to exacerbate, rather than help eliminate, the gaps in college participation between rich and poor, and between racial majority and minority students. The Civil Rights Project report concludes: "The students least likely to be awarded a merit scholarship come from populations that have traditionally been under-represented in higher education. This hinders the potential to increase college access among minority and low-income students, especially if these scholarship programs continue to overshadow need-based programs."

So what does the trend toward merit aid mean for the development of an educated and skilled workforce? The research has demonstrated that merit aid programs do not increase college access for students who would otherwise be unlikely to attend college. In fact, these programs allocate resources to the very students who are most likely to attend college even without public assistance. Subsidizing existing college-going behavior can do little to help develop a skilled workforce.

Some proponents of merit scholarships argue that they are an effective way of stanching "brain drain," by encouraging a state's "best and brightest" students to attend college in-state, with the hope that they will stay in the state after they graduate and contribute to the local economy. But there is no evidence, even from states such as Georgia that have had merit scholarship programs for a number of years, that these students do stay in the state after graduation.

### **Subsidizing existing college-going behavior can do little to help develop a skilled workforce.**

The problem with using merit scholarships for this purpose is that the most academically talented students are exactly the students who are most likely to: 1) attend graduate school rather than entering the labor market after attaining a bachelor's degree; or 2) be recruited in regional, if not national, labor markets. Both of these facts open the door for the student to leave the state, taking with her the public investment in her education in the form of both the merit scholarship and the state's subsidy of her education (if she attended a public institution). Rather than chasing after these most able students, states would be better off developing the skills of more marginal students. These are the people who are most likely to stay in the state and contribute to the local economy upon graduation.

The New England states have resisted the temptation to use public scholarship funds for purposes unrelated to increasing college access. The nation's first scholarships for needy students were awarded over three centuries ago by New England institutions that are still in existence today. While the economic downturn has certainly affected the willingness and ability of the states to fund public institutions and financial aid, New England has at least maintained a commitment to awarding the bulk of such aid based on the financial need of the student. Ninety-eight percent of the almost \$200 million in grant dollars provided to undergraduates by the six New England states is awarded based on the financial need of the student and her family. This commitment will ensure that the region maximizes its public investment in developing a skilled workforce for the future.

Other policies, including loan-forgiveness programs for students entering high-need occupations, can also be used to help states develop a skilled workforce. But need-based assistance is the best financial aid tool to increase college access and promote economic prosperity.

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